

4 October 2017

## Events Round-Up

NZ: QSBO confidence (net%), Q3: 5 vs. 18 prev.

AU: Building approvals (m/m%), Aug: 0.4 vs. 1.0 exp.

AU: RBA cash rate target (%), Oct: 1.5 vs. 1.5 exp.

UK: Markit construction PMI, Sep: 48.1 vs. 51.1 exp.

NZ: GDT dairy auction avg winning price: -2.4%

NZ: QV house prices (y/y%), Sep: 4.3 vs. 4.8 prev.

## Good Morning

In a day of where most market movements have been microscopic, the NZD has underperformed after a weaker than expected dairy auction.

The NZD has traded in a tight 0.7150-0.7250 range for much of the past week and currently sits near the bottom of that range, not helped by a softer than expected GDT dairy auction overnight. Average prices fell by 2.4% making it the weakest auction in over six months. The result included a 2.7% fall for whole milk prices, going against the grain of a decent recovery in NZX dairy futures pricing.

More in line with expectations, QV house price data were released this morning showing prices up 4.3% y/y%, the slowest annual rate since mid-2012. QV reported that the normal spring surge in listings hadn't eventuated, and a lack of supply has helped insulate market from more significant falls. Yesterday's QSBO data showed that while business confidence slipped a little ahead of the election, activity indicators, capacity and pricing indicators all remained firm.

As long as risk appetite remains very high, it's hard to see the weakness in the NZD being sustained for too long. US equities continue to probe fresh highs, while the VIX index remains near historical lows. Consumer discretionary stocks led by Automobiles are higher, after a number of US car manufacturers reported better sales than expected, supported by replacement buying after the hurricanes.

NZD/AUD was stuck in a very tight 0.9175-0.9195 range for much of yesterday, but after the GDT dairy auction results came through it dropped to around 0.9140. The AUD itself fell 30 pips or so after the RBA maintained its neutral policy stance. Some hawks in the market clearly anticipated a firmer outlook statement but, like the RBNZ,

the RBA is in no hurry to guide policy rates higher. The AUD has recovered overnight which sees it flat for the day around 0.7830.

GBP is on the soft side, after the UK construction PMI fell by much more than expected to a contractionary level. Furthermore, Bloomberg reports that the UK government is growing increasingly concerned that it could crash out of the EU without a trade deal. EU Chief Brexit Negotiator Barnier and EC President Juncker said Britain must give more details about what kind of divorce terms it is willing to accept – particularly on the financial settlement – before talks can begin on trade. GBP is down 0.2% to 1.3245, while the underperforming NZD sees NZD/GBP down to 0.54.

In other overnight news, Fed Governor Powell spoke on regulatory issues and declined to comment on reports he has had discussions on the role of the Fed Chair position. Politico reports that sources close to the Fed Chair selection process confirm that Kevin Warsh and Jerome Powell are the current front-runners with Treasury Secretary Mnuchin said to be favouring Powell. Warsh's monetary policy bias is seen to be hawkish while Powell is seen to be neutral.

US bond yields are slightly lower across the curve, going against the grain of a tick or two of upside for European yields. After its push higher from early September, the US 10-year rate is meeting some significant resistance near the 2.35% mark and it is currently down 1bp to 2.33%. A JPMorgan survey for the week through Oct. 2 found that their clients added to short positions in US Treasuries, with 44% holding a short position relative to their benchmark, the most since 2006. This will make it tough for rates to push higher unless we get signs of higher inflation, much better activity data, or more confidence that Trump's tax reform plan will push forward.

Yesterday, the NZ rates market showed little movement, with yields flat to down 1bp right across the curve. With Australian 10-year futures and US 10-year rates showing yields down about 2bps from the NZ close, the bias for NZ will be flat to slightly lower yields today. Tonight sees US ADP employment released, which is expected to be negatively impacted by Hurricane Harvey, while the US ISM non-manufacturing index is expected to tick higher.

[jason.k.wong@bnz.co.nz](mailto:jason.k.wong@bnz.co.nz)

## Coming Up

|                                 | Period | Cons. | Prev. | NZT   |
|---------------------------------|--------|-------|-------|-------|
| UK Markit services PMI          | Sep    | 53.2  | 53.2  | 21:30 |
| EC Retail sales (m/m%)          | Aug    | 0.3   | -0.3  | 22:00 |
| US ADP employment change ('000) | Sep    | 138   | 237   | 01:15 |
| US ISM non-manf. composite      | Sep    | 55.5  | 55.3  | 03:00 |

Source: Bloomberg, BNZ

| Foreign Exchange                |        |       |        |        | Equities    |        |                       |                     | Commodities**       |        |         |                |                           |        |      |
|---------------------------------|--------|-------|--------|--------|-------------|--------|-----------------------|---------------------|---------------------|--------|---------|----------------|---------------------------|--------|------|
| Indicative overnight ranges (*) |        |       |        |        | Other FX    |        |                       |                     | Major Indices       |        |         | Price          |                           |        |      |
|                                 | Last   | % Day | Low    | High   |             | Last   | % Day                 | % Year              |                     | Last   | Net Day |                |                           |        |      |
| NZD                             | 0.7154 | -0.6  | 0.7148 | 0.7183 | CHF         | 0.9744 | -0.0                  |                     | S&P 500             | 2,532  | +0.1    | 17.1           | Oil (Brent)               | 56.02  | -0.2 |
| AUD                             | 0.7829 | +0.0  | 0.7786 | 0.7835 | SEK         | 8.141  | -0.4                  |                     | Dow                 | 22,632 | +0.3    | 24.0           | Oil (WTI)                 | 50.44  | -0.3 |
| EUR                             | 1.1745 | +0.1  | 1.1696 | 1.1773 | NOK         | 7.978  | -0.3                  |                     | Nasdaq              | 6,525  | +0.1    | 23.1           | Gold                      | 1271.5 | -0.1 |
| GBP                             | 1.3245 | -0.2  | 1.3222 | 1.3288 | HKD         | 7.811  | -0.0                  |                     | Stoxx 50            | 3,606  | +0.1    | 20.3           | HRC steel                 | 596.0  | +0.2 |
| JPY                             | 112.86 | +0.1  | 112.69 | 113.20 | CNY         | 6.653  | -0.1                  |                     | FTSE                | 7,468  | +0.4    | 6.9            | CRB                       | 181.0  | +0.1 |
| CAD                             | 1.2492 | -0.1  |        |        | SGD         | 1.362  | +0.0                  |                     | DAX                 | 12,903 | +0.6    | 22.8           | Wheat Chic.               | 467.0  | +0.8 |
| NZD/AUD                         | 0.9138 | -0.6  |        |        | IDR         | 13,542 | +0.0                  |                     | CAC 40              | 5,367  | +0.4    | 20.5           | Sugar                     | 14.04  | -1.9 |
| NZD/EUR                         | 0.6091 | -0.7  |        |        | THB         | 33.36  | -0.2                  |                     | Nikkei              | 20,614 | +1.0    | 23.2           | Cotton                    | 68.20  | -1.3 |
| NZD/GBP                         | 0.5401 | -0.3  |        |        | KRW         | 1,147  | +0.0                  |                     | Shanghai            | 3,349  | +0.3    | 11.5           | Coffee                    | 125.5  | -1.4 |
| NZD/JPY                         | 80.74  | -0.5  |        |        | TWD         | 30.43  | -0.0                  |                     | ASX 200             | 5,701  | -0.5    | 4.0            | WM powder                 | 3300.0 | +0.0 |
| NZD/CAD                         | 0.8937 | -0.7  |        |        | PHP         | 51.11  | +0.0                  |                     | NZX 50              | 7,933  | +0.1    | 7.9            | <b>Australian Futures</b> |        |      |
| NZ TWI                          | 75.78  | -0.5  |        |        |             |        |                       |                     |                     |        |         |                | 3 year bond               | 97.82  | 0.02 |
|                                 |        |       |        |        |             |        |                       |                     |                     |        |         |                | 10 year bond              | 97.14  | 0.03 |
| Interest Rates                  |        |       |        |        |             |        |                       |                     |                     |        |         |                |                           |        |      |
|                                 | Rates  |       |        |        | Swap Yields |        | Benchmark 10 Yr Bonds |                     | NZ Government Bonds |        |         | NZ Swap Yields |                           |        |      |
|                                 | Cash   | 3Mth  | 2 Yr   | 10 Yr  |             | Last   | Net Day               |                     | Last                |        |         | Last           |                           |        |      |
| USD                             | 1.25   | 1.34  | 1.74   | 2.29   | USD         | 2.33   | -0.01                 | NZGB 3 04/15/20     | 2.09                | -0.01  | 1 year  | 2.03           | -0.01                     |        |      |
| AUD                             | 1.50   | 1.71  | 2.03   | 2.99   | AUD         | 2.84   | 0.00                  | NZGB 6 05/15/21     | 2.24                | -0.01  | 2 year  | 2.21           | -0.00                     |        |      |
| NZD                             | 1.75   | 1.94  | 2.21   | 3.28   | NZD         | 2.98   | -0.00                 | NZGB 5 1/2 04/15/23 | 2.55                | -0.01  | 5 year  | 2.75           | -0.01                     |        |      |
| EUR                             | 0.00   | 0.06  | -0.17  | 0.91   | GER         | 0.46   | 0.01                  | NZGB 2 3/4 04/15/25 | 2.83                | -0.01  | 7 year  | 3.02           | -0.01                     |        |      |
| GBP                             | 0.25   | 0.34  | 0.81   | 1.40   | GBP         | 1.35   | 0.03                  | NZGB 4 1/2 04/15/27 | 2.98                | -0.00  | 10 year | 3.28           | -0.01                     |        |      |
| JPY                             | -0.05  | -0.05 | 0.04   | 0.27   | JPY         | 0.07   | -0.00                 | NZGB 3 1/2 04/14/33 | 3.33                | -0.00  | 15 year | 3.53           | -0.01                     |        |      |
| CAD                             | 1.00   | 1.17  | 1.89   | 2.39   | CAD         | 2.12   | -0.00                 | NZGB 2 3/4 04/15/37 | 3.54                | -0.00  |         |                |                           |        |      |

\* These are indicative ranges from 5pm NZT; please confirm rates with your BNZ dealer

\*\* All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 06:56

Source: Bloomberg

## Contact Details

|                    |                |                           |                      |
|--------------------|----------------|---------------------------|----------------------|
| <b>New Zealand</b> | Jason Wong     | Senior Markets Strategist | +(64 4) 924 7652     |
| <b>Australia</b>   | Ray Attrill    | Head of FX Strategy       | +(61 2) 9237 1848    |
|                    | Rodrigo Catril | Currency Strategist       | +(61 2) 9237 7109    |
| <b>London</b>      | Gavin Friend   | Senior Markets Strategist | +(44 0) 20 7710 0898 |

**ANALYST DISCLAIMER:** The person or persons named as the author(s) of this report hereby certify that the views expressed in the research report accurately reflect their personal views about the subject securities and issuers and other subject matters discussed. No part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the research report. Research analysts responsible for this report receive compensation based upon, among other factors, the overall profitability of the Markets Division of National Australia Bank Limited, a member of the National Australia Bank Group ("NAB"). The views of the author(s) do not necessarily reflect the views of NAB and are subject to change without notice. NAB may receive fees for banking services provided to an issuer of securities mentioned in this report. NAB, its affiliates and their respective officers, and employees, including persons involved in the preparation or issuance of this report (subject to the policies of NAB), may also from time to time maintain a long or short position in, or purchase or sell a position in, hold or act as advisors, brokers or commercial bankers in relation to the securities (or related securities and financial instruments), of companies mentioned in this report. NAB or its affiliates may engage in these transactions in a manner that is inconsistent with or contrary to any recommendations made in this report.

**NEW ZEALAND DISCLAIMER:** This publication has been provided for general information only. Although every effort has been made to ensure this publication is accurate the contents should not be relied upon or used as a basis for entering into any products described in this publication. Bank of New Zealand strongly recommends readers seek independent legal/financial advice prior to acting in relation to any of the matters discussed in this publication. Neither Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication.

**USA DISCLAIMER:** If this document is distributed in the United States, such distribution is by nabSecurities, LLC. This document is not intended as an offer or solicitation for the purchase or sale of any securities, financial instrument or product or to provide financial services. It is not the intention of nabSecurities to create legal relations on the basis of information provided herein.

**National Australia Bank Limited is not a registered bank in New Zealand.**